

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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(U338E) For Authority To Increase Its Authorized)
Revenues For Electric Service In 2018, Among)
Other Things, And To Reflect That Increase In)
Rates)
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Application No. 16-09-001
(Filed September 1, 2016)

**RESPONSE OF THE
CITY OF LANCASTER**

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**RESPONSE OF THE
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In accordance with Rule 2.6 of the Rules of Practice and Procedure of the Public Utilities Commission of the State of California (“Commission”), the city of Lancaster hereby submits this response to the application filed by Southern California Edison Company (“SCE”) in the above-captioned docket (“GRC Application”). Notice of the GRC Application first appeared in the Daily Calendar on September 2, 2016. Therefore, in accordance with Rule 2.6(a), this response is timely filed.

I. INTRODUCTION AND SUMMARY

Lancaster is a community of approximately 160,000 residents located in northern Los Angeles County, in the High Desert region of the western Mojave Desert, rich in solar resources. Lancaster is aggressively pursuing alternative energy solutions, principally solar energy, in hopes of bettering the current and future environmental and economic conditions of its community and region. As a means of advancing these goals, the Lancaster City Council approved the formation of a community choice aggregation (“CCA”) program, known as Lancaster Choice Energy (“LCE”), the first CCA program in SCE’s service territory. Lancaster’s CCA customers receive generation services from Lancaster, and receive transmission, distribution, billing and other services from SCE.

The investor-owned utilities' ("IOU") respective General Rate Case ("GRC") proceedings are the forum in which the Commission assesses the reasonableness of the IOU's base revenue requirements. In the GRC Application, SCE has requested a total of \$5.885 billion for test year 2018,¹ and provides thousands of pages of testimony discussing SCE's specific rate requests for each of its divisions and departments. Lancaster has a direct interest in several issues raised in the GRC Application. The GRC Application includes SCE's request for significant modifications to the CCA service fees that Lancaster pays SCE. The GRC Application also includes revenue requests and rate proposals for the transmission, distribution, billing, and other rates that Lancaster's CCA customers pay SCE. Based on this interest, and subject to further review throughout the course of the proceeding, Lancaster has identified three initial issues that it wishes to explore as part of this proceeding:

1. Modifications to the CCA service fee structure: Lancaster supports SCE's proposal to eliminate and reduce a number of current CCA service fees. Lancaster intends to work with SCE and the Commission to ensure that all reasonable savings and efficiencies have been identified and incorporated into the revised CCA service fee structure. Moreover, Lancaster looks forward to implementing the revised CCA service fee structure as soon as possible, ideally on or about January 1, 2017.
2. SCE's Administrative and General ("A&G") revenue request: Lancaster is concerned that SCE's A&G revenue request may include costs for generation and procurement-related activities that do not benefit CCA customers and should not be allocated to them. Forcing CCA customers to pay for SCE activities that they derive no benefit from would be unjust, unreasonable, and would violate the statutory prohibition on cost shifting. Lancaster looks forward to working with SCE to identify A&G costs that should be allocated to SCE's generation rates instead of being allocated to all customers.
3. Ensuring CCA growth and operational integrity: As the first CCA program in SCE's service area, Lancaster has an interest in ensuring that California's policy goal of facilitating CCA growth and viability is fully realized. Lancaster intends to work with SCE and the Commission to ensure that no aspect of the GRC Application

¹ See, e.g., GRC Application at 1.

imposes unreasonable barriers to CCA program formation, expansion, or operational viability.

Rule 2.6(c) states that a party “may file a response that does not object to the authority sought in an application, but nevertheless presents information that the person tendering the response believes would be useful to the Commission in acting on the application.” The four issues identified by Lancaster pertain to matters of interest to Lancaster. Lancaster requests that these issues be given due consideration in this proceeding. Lancaster anticipates that it may identify additional issues as the proceeding moves forward, and reserves the right to address issues that arise.

II. RESPONSE

A. Lancaster Supports SCE’s Proposed Modifications To The CCA Service Fee Structure And Looks Forward To Identifying Additional Savings And Implementing The Revised CCA Service Fee Structure As Soon As Reasonably Practicable

Lancaster applauds SCE’s efforts thus far to identify savings to reduce, eliminate and consolidate existing CCA service fees. Lancaster views this proceeding as an opportunity to further engage with SCE and the Commission to continue SCE’s positive work and ensure that the final CCA service fee structure approved by the Commission identifies and incorporates all reasonable savings and efficiencies. Moreover, since it is anticipated that the final CCA service fee structure will result in savings to Lancaster and other community choice aggregators, Lancaster looks forward to working with SCE to implement the final CCA service fee structure as soon as reasonably practicably, ideally on or about January 1, 2017.

Community Choice Aggregators are required to compensate IOUs for the costs of certain IOU-provided services. In accordance with this requirement, each IOU maintains a Commission-approved schedule of fees for services provided to Community Choice Aggregators.

As a new community choice aggregator, Lancaster actively participated in phase 2 of SCE's 2016 GRC (A.14-06-014). As part of that proceeding, Lancaster questioned and challenged various CCA service fees. As a result of this effort, Lancaster and SCE entered into a settlement agreement, which was approved by the Commission in Decision ("D.")15-09-013. As part of the settlement agreement, SCE agreed to immediately implement certain revised CCA service fees but deferred a comprehensive review of CCA services fees until the "GRC Phase 1 after SCE had built experience with, and recorded cost data about, CCA-related services."² In this proceeding, SCE states that it has conducted its comprehensive review of CCA service fees,³ and requests Commission approval of significant modifications to the CCA service fee structure, including the reduction, consolidation, or elimination of a number of current fees.⁴

Again, Lancaster applauds SCE for its work in comprehensively reviewing its CCA service fee structure and costs. On first review, Lancaster is encouraged by the results of SCE's review. The existing CCA service fee schedule is out of date, and many its fees do not accurately reflect the cost of the service provided. SCE's efforts to reduce, consolidate, or eliminate existing CCA service fees are a significant step in the right direction. Lancaster views this proceeding as an opportunity to continue SCE's progress. Lancaster intends to work collaboratively with SCE and the Commission to further review SCE's study and other information that formed the basis of SCE's proposal, and to identify any additional efficiencies, savings, and fee reductions that may be possible. Given the inaccuracy of the existing fee schedule, Lancaster also intends to engage with SCE and the Commission to ensure that a

² D.15-09-013 at 7.

³ See Exhibit SCE-03 at 241.

⁴ See *id.* at 240.

revised CCA service structure is approved and implemented in a fast and efficient manner.

Lancaster requests that these issues be addressed in this proceeding, presumably on an expedited basis.

B. CCA Customers Should Not Be Charged For Procurement And Generation-Related Costs

Lancaster is concerned that some of the revenue requests for activities included in the rates paid by Lancaster's customers may include the cost of procurement and generation-related activities that neither Lancaster nor its customers derive any benefit from. Lancaster looks forward to working with SCE and the Commission to identify all generation and procurement-related costs embedded in SCE's revenue requests and to ensure that such costs are not included in the rates paid by Lancaster's customers. Since Lancaster is the first CCA program in SCE's service area, with now over one year of operational experience, it is an appropriate time to more fully examine whether certain degrees of cost shifting may be occurring in contravention to statutory prohibitions.⁵

Lancaster has identified and is exploring several procurement and generation-related charges in SCE's request for \$429 million in A&G costs for Test Year ("TY") 2018.⁶ A&G costs are included in the rates paid by CCA customers. SCE has requested \$44 million for its Law Department for TY 2018.⁷ The Law Department includes a Power Procurement section dedicated to providing "transactional legal support and advice related to SCE's procurement of electric power and ancillary services, natural gas products, and related financial hedge

⁵ See, e.g., Pub. Util. Code § 366.2(a)(4) (added by Senate Bill ("SB") 790 (2011)).

⁶ See Exhibit SCE-08 (Vol. 1) (table titled "Ethics and Compliance O&M Expenses 2018 Forecast," at 2 [Summary Section]).

⁷ See Exhibit SCE-08 (Vol. 4) (Table I-2, at 2).

products.”⁸ The Law Department revenue request also includes costs associated with the following procurement and generation-related activities:

- Providing legal support to SCE’s Generation operating unit.⁹
- Handling applications for licensing/re-licensing of hydroelectric facilities.¹⁰
- Providing pre-litigation advice to SCE’s Generation operating unit.¹¹
- Providing legal support regarding SCE’s resource planning activities and power contract approval.¹²

Similarly, SCE’s request for \$25 million for its Regulatory Affairs Organization includes the cost of operating SCE’s Energy Procurement Policy organization, which “manages submissions before the CPUC regarding energy procurement.”¹³ Lancaster anticipates that procurement and generation-related costs may be embedded in additional A&G requests, as well as other SCE revenue requests for departments whose costs are included in CCA customers’ rates. SCE is interested in exploring these matters and working with SCE to more carefully assess how A&G costs are apportioned among generation and distribution rates.

If SCE is including procurement and generation-related costs in rates paid by Lancaster’s customers, this outcome would be unjust, unreasonable, and contrary to Public Utilities Code Section 366.2(a)(4), which prohibits cost shifting between the customers of a community choice aggregator and the bundled service customers of an electrical corporation. As a community

⁸ *Id.* at 7:24-30.

⁹ *See* Exhibit SCE-08 (Vol. 4) at 5:15-17.

¹⁰ *See id.* at 6:2-3.

¹¹ *See* Exhibit SCE-08 (Vol. 4) at 6:17-19.

¹² *See id.* at 8:1-2.

¹³ Exhibit SCE-08 (Vol. 2) at 13:25 – 14:8.

choice aggregator, Lancaster is solely responsible for its customers' electricity procurement.¹⁴

Rates charged by Lancaster to its CCA customers cover the cost of this independent procurement.

Lancaster requests that the Commission explore and possibly address whether SCE's costs of procurement and generation-related activities are included in rates paid by Lancaster's CCA customers. Lancaster notes that a similar issue was recently raised by Marin Clean Energy ("MCE"), a CCA program in Pacific Gas and Electric Company's ("PG&E") service area, as part of PG&E's 2017 GRC (A.15-09-001). In a *Joint Motion for Adoption of Settlement Agreement*, dated August 3, 2016 and filed in A.15-09-001 ("Joint Motion"), PG&E has agreed to undertake a comprehensive study as part of its next GRC to determine if its current allocation of legal department costs to generation rates is reasonable.¹⁵ PG&E's and MCE's treatment in A.15-09-001 may inform the Commission's consideration of a similar issue in this proceeding.

C. SCE's Rates Should Not Impose Unreasonable Burdens On CCA Program Formation, Expansion, and Operation

SB 790 was signed into law in 2011. Among other things, SB 790 articulates a policy goal with respect to CCA programs: "It is the policy of the state to provide for the consideration, formation, and implementation of community choice aggregation programs...."¹⁶ As described

¹⁴ See Pub. Util. Code § 366.2(a)(5) (added by SB 790 (2011)).

¹⁵ See Joint Motion at 1-26. Pursuant to Rule 13.9 and Evid. Code § 452(d), the Commission may take official notice in this proceeding of the existence of this issue in PG&E's GRC. See, e.g., D.16-01-014 at 20 (affirming, among other things, that the Commission may "take official notice of the existence of pleadings...in other proceedings....").

¹⁶ SB 790, § 2(a).

by the Commission, SB 790 echoes earlier policy goals articulated in Assembly Bill 117 (2002).¹⁷

As a strong supporter of CCA programs and as the operator of the first CCA program in SCE's service area, Lancaster has a strong interest in ensuring that California's policy goal of facilitating CCA growth and viability is fully realized. In order to achieve this goal, it is important for the Commission and parties to explore whether aspects of the GRC Application impose unreasonable financial barriers or otherwise disincentivize CCA formation, operation, and expansion.

III. PROCEDURAL MATTERS

Pursuant to Rule 2.6(d), Lancaster provides the following procedural comments:

A. Proposed Category

The instant proceeding is appropriately categorized at "ratesetting."

B. Need for Hearing

Lancaster believes that evidentiary hearings may be necessary. The factual record may need to be explored to determine whether these proposed cost recoveries are accurate and reasonable.

C. Issues to be Considered

Lancaster is still evaluating the GRC Application and issues associated with SCE's request, and therefore Lancaster reserves the right to identify additional issues that should be

¹⁷ See D.04-12-046 at 3 (emphasis added) ("The state Legislature has expressed the state's policy to permit *and promote* CCAs by enacting AB 117...."). See also D.10-05-050 at 13 (emphasis added) "Certainly, Section 336.2(c)(9) [the provision in AB 117 that requires cooperation from the utilities] evidences a substantial governmental interest in *encouraging the development* of CCA programs and allowing customer choice to participate in them.").

addressed in this proceeding. The issues identified in this response are an initial, non-exhaustive list of issues that the Commission should address in this proceeding.

D. Proposed Schedule

Lancaster has no comments on the proceeding's schedule at this time.

IV. PARTY STATUS

Pursuant to Rule 1.4(a)(2), Lancaster hereby requests party status in this proceeding. As described herein, Lancaster has a material interest in the matters being addressed in this proceeding. Lancaster designates the following person as the "interested party" in this proceeding:

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Additionally, Lancaster requests "information only" status for the following:

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V. CONCLUSION

Lancaster thanks Commissioner Michael Picker and Assigned Administrative Law Judges Eric Wildgrube and Stephen C. Roscow for their thoughtful consideration of this response and the issues detailed herein.

Dated: October 3, 2016

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott Blaising", with a stylized flourish at the end.

Scott Blaising

David Pepper

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